

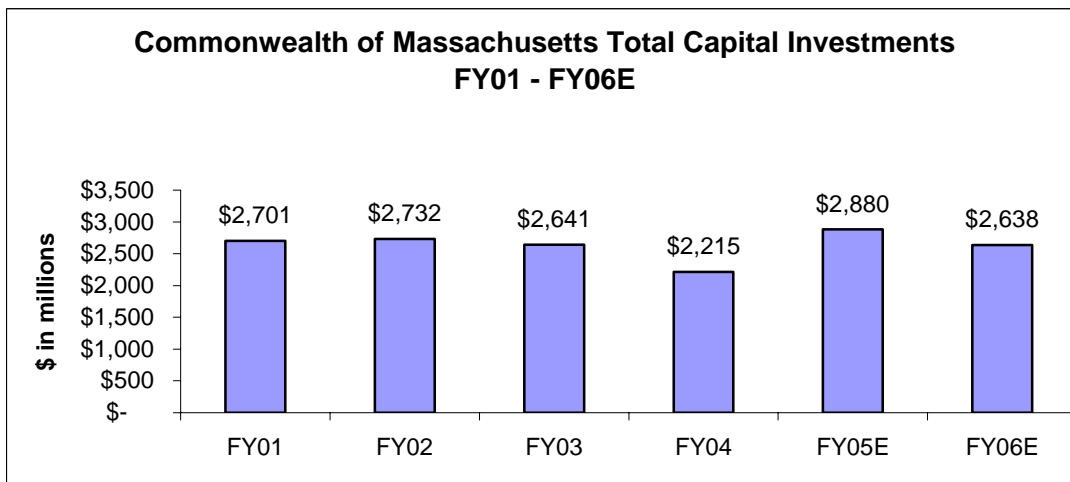
COMMONWEALTH CAPITAL INVESTMENT PLAN

INTRODUCTION

The Executive Office for Administration and Finance (A&F) develops and manages a multi-year capital investment plan. This plan allows the Commonwealth to establish capital investment priorities throughout its state agencies and to plan for the sourcing of funds required to support these investments. The capital investment programs are managed through seven state agencies and three independent authorities. In addition to direct capital investments, A&F allocates, on behalf of the Commonwealth, federally provided private activity bond volume capacity amongst three independent authorities to finance economic development projects, student loans, affordable housing projects, and low interest mortgages.

Expenditures

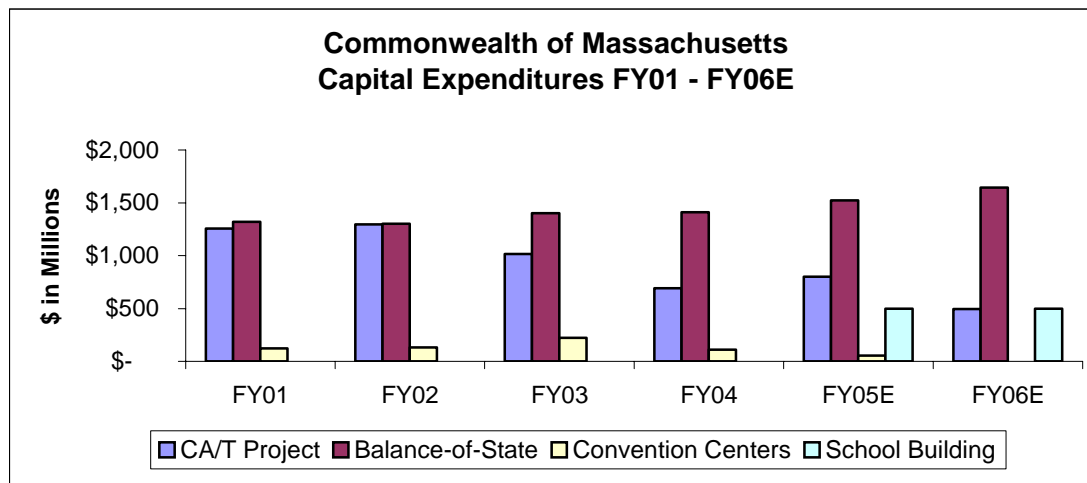
The Commonwealth is projected to expend \$2.6 billion for capital investments in FY06, a \$242 million decrease from FY05, due to declining costs associated with the CA/T project. The following chart summarizes the Commonwealth's total capital investments since FY01:



The investments are segregated into four separate capital budgets:

- **Central Artery/Third Harbor Tunnel Project**, which is managed by the Massachusetts Turnpike Authority;
- **Boston Convention and Exhibition Center and the Springfield Arena and Convention Center**, which are managed by the Massachusetts Convention Center Authority;
- **School Building Assistance**, which is managed by the Massachusetts School Building Authority; and
- **“Balance-of-State”**, which are capital investments in state agencies managed by the Executive Office for Administration and Finance through state agencies.

The graph below provides a historical trend analysis of the Commonwealth's investments in the capital budgets:



Funding

The budgets are funded by Commonwealth debt (both general obligation and special obligation), operating revenues, third-party payments, and federal reimbursements. The following provides an analysis of the amount and percentage of the annual total that each funding source contributed to the Commonwealth's total capital investment plan:

Source of Funds	FY01		FY02		FY03		FY04		FY05		FY06	
(\$ millions)	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Funds from Debt Issuance	2,018	75	1,995	73	1,726	65	1,404	63	2,087	72	1,803	68
Operating Revenues	141	5	195	7	354	13	133	6	152	5	195	7
Third-Party Payments	82	3	52	2	52	2	63	3	154	5	281	11
Federal Reimbursements	460	17	490	18	509	19	615	28	487	17	359	14
Total*	2,701	100	2,732	100	2,641	100	2,215	100	2,880	100	2,638	100

*Totals may not add due to rounding

Administrative Bond Cap

In the early 1990's, A&F instituted an administrative bond "cap", which established an annual level of bond issuance in support of the "balance-of-state" capital budget. The FY06 administrative bond cap is \$1.289 billion with total "balance-of-state" spending over \$1.6 billion with the inclusion of federal highway dollars.

Capital Budgeting Process

The Administration revamped the planning process for the "balance-of-state" capital plan in FY04. Capital planning now requires that state agencies develop budget proposals based on a "modified zero-based budget" paradigm. This paradigm recognizes that many capital investments take multiple years to design and construct. As such, these projects are allocated funds over the life of the project, which sets the baseline capital

budgets for the state agencies. All other proposed investments are subject to review by A&F and compete for unallocated funds.

In addition to the new budgeting approach, the capital planning process requires state agencies to segment their capital budget proposals by category of spending. These categories are called “Major Program Categories.” To augment the budget proposals, state agencies submit memorandums describing these Major Program Categories, including historical spending, project concentration and program outcomes. A&F conducts due diligence on each budget proposal by meeting with each state agency and analyzing the submitted plans.

Upon completion of the due diligence process, A&F sets the capital budget and notifies state agencies of their budgets and approved programs/projects. The capital budget is developed based on the following tenets:

- “Fix-It-First”: An Administration priority to repair the Commonwealth’s productive asset base
- Finishing projects on time and within budget
- Reimbursing grant recipients on a timely basis
- Limiting expansion to only core needs
- Limiting non-capital costs on the capital budget

Commonwealth Capital Group

In FY05, the administration created the “Commonwealth Capital” investment group to better coordinate programs within the capital budget and forge new partnerships with municipalities to achieve “smart growth” outcomes through local planning, zoning, and permitting. A committee comprised of the Office of Commonwealth Development, the Executive Office of Environmental Affairs, the Department of Housing and Community Development, the Executive Office of Transportation, and the Executive Office of Administration and Finance evaluate and recommend capital projects for approval to the Secretary of Administration and Finance and the Governor. Projects with higher “Commonwealth Capital” scores are given preference over projects that score lower.

For FY06, ANF has allocated \$97 million to the following “Commonwealth Capital” programs:

- Land Acquisition programs
- Affordable Housing Trust
- Housing Stabilization Fund
- Capital Improvement Preservation Fund
- Transit Node Housing
- Public Works Economic Development Grants
- Off-Street Parking
- Community Development Actions Grants
- Transit Oriented Development

FY06 Capital Budget

A&F approved a \$1.642 billion “balance-of-state” capital budget (including federal reimbursements) for FY06. The following table details the capital budget allocations by state agency from FY01 through FY06:

“Balance-of-State” Capital Budget (<i>\$ millions</i>)							
Agency	Focus	FY01	FY02	FY03	FY04	FY05	FY06E
A&F	Economic Development	102	99	86	64	53	40
DCAM	Infrastructure	179	235	274	251	293	320
DHCD	Housing	79	106	112	121	123	84
EOEA	Environment	140	156	134	113	131	97
EOPS	Public Safety	23	8	37	20	24	24
EOTC	Transportation	732	612	682	767	818	890
ITD	Technology	64	86	76	75	82	90
DCC	Commonwealth Capital	*	*	*	*	*	97
Total		1,319	1,302	1,401	1,411	1,524	1,642

- FY06 Commonwealth Capital includes transfers of \$34M from Environment, \$39M from Housing, \$20M from Transportation, and \$4M from Economic Development
- FY06 Transportation includes \$353M of federal reimbursements

BALANCE-OF-STATE

Economic Development

<i>(\$ MM)</i>	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$102	\$99	\$86	\$64	\$53	\$40

- FY06 Commonwealth Capital include a transfer of \$4M from Economic Development

In FY06, capital spending under the control of the Executive Office for Administration and Finance funds a variety of projects, including construction of off-street parking garages and construction grants to public libraries around the Commonwealth. A&F will continue to support projects such as the renovation of the Pittsfield Colonial Theater and the continued redevelopment of Devens. A&F funds also provide the annual state match to secure federal contributions to the Water Pollution Abatement Trust, which supports construction of municipal water and wastewater treatment facilities.

Infrastructure

<i>(\$ MM)</i>	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$179	\$235	\$274	\$251	\$293	\$320

The Division of Capital Asset Management and Maintenance (DCAM) capital plan includes a significant investment in the rehabilitation of the Commonwealth’s asset base as part of the Administration’s “Fix-It-First” policy. DCAM is in the midst of a multi-year effort to rehabilitate courthouses throughout the state and address access/ADA issues at some of the Commonwealth’s aging court buildings – 36% of DCAM’s FY06 capital budget will be spent on courts. DCAM will also invest in construction and repair of office buildings for state agencies and higher education institutions, Health and Human Service

facilities, jails, and other public safety facilities. Highlights of DCAM's capital spending include:

State Office Buildings (\$55M)

- Demolition at Metropolitan, Rutland, and Worcester City Hospital in preparation for disposition
- Demolition of surplus buildings at former Middleton Colony campus
- State House Coal Pocket emergency repairs
- Renovation of the State House Library
- Expansion of Veteran's Memorial Cemetery in Agawam and Winchendon

Courts (\$115M)

- New Court Projects:
 - Lowell
 - Salem
 - Fall River
 - Taunton
- Existing Court Projects:
 - Worcester
 - Plymouth
- Significant renovation projects on the Cambridge, Brooke Courthouse, and Suffolk County high-rise courthouses

Health and Human Services (\$35M)

- New DYS girls' facility in Westborough
- Suicide prevention upgrades, various DYS facilities
- Study – New DMH Psychiatric Facility, Central Region
- Space reconfiguration, Saunders Building, Tewksbury State Hospital
- Continued repairs to soldiers' homes in Chelsea and Holyoke

Public Safety (\$61M)

- Replacement of 100 year old Franklin County Jail
- Construction of the New Hampden Women's Correctional Facility
- New State Police Forensic and DNA Laboratory
- Upgrade of Medical Examiners Facilities in Worcester, Holyoke, and Boston

State and Community Colleges (\$34M)

- Ongoing construction of new academic buildings at Holyoke, Cape Cod, Bunker Hill, and Northern Essex Community Colleges
- Significant renovation and asbestos abatement at Springfield Tech, Greenfield Community Colleges, and the Massachusetts College of Liberal Arts

University of Massachusetts (\$20M)

- Repairs to parking garage and plaza deck at UMASS Boston
- Fire Protection Systems, Wheatley Building, UMASS Boston
- Improvements to the WEB Dubois Library at UMASS Amherst
- Upgrades and repairs to various facilities

Transportation

(\$ MM)	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$732	\$612	\$682	\$767	\$818	\$890

- FY06 Commonwealth Capital includes a transfer of \$20M from Transportation
- FY06 Transportation includes \$353M of federal reimbursements

The Executive Office of Transportation's (EOT) capital investment plan funds projects that further the Administration's policies of "Fix-It-First" and "Smart Growth" for the Commonwealth. EOT projects are categorized as follows: Road and Bridge Construction and Maintenance, Local Aid and Economic Grants, and Other Transportation.

Road and Bridge Construction and Maintenance

EOT's capital investment plan provides significant funding for road and bridge maintenance and construction. MassHighway is statutorily required to spend no less than \$450 million on construction costs related to the Statewide Road and Bridge Program. In FY06, the department will exceed the \$450 million requirement and should spend over \$500M under the FY06 budget.

Local Aid and Economic Grants

The capital investment plan includes funding for Chapter 90, Public Works Economic Development (PWED) grants, and the Small Town Road Assistance Program (STRAP).

- Chapter 90 allocations to cities and towns fund local road and bridge construction and maintenance projects. In March 2005, the Administration awarded \$120 million through this program to cities and towns. The grants awarded to the Commonwealth's municipalities are based on a formula incorporating road miles, employment levels, and population.
- PWED grants fund the design and construction of transportation and infrastructure projects targeted to spur economic development in cities and towns.
- STRAP provides small towns with additional resources for local road repair and construction costs.

Other Transportation Programs

EOT's capital investment plan includes funding for other transportation programs including water and rail transportation, regional transit authorities, mobility assistance for the elderly, and construction and rehabilitation of regional intermodal centers.

Environmental Affairs

(\$ MM)	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$140	\$156	\$134	\$113	\$131	\$97

- FY06 Commonwealth Capital includes a transfer of \$34M from Environment Affairs

The current five-year capital investment plan for the Executive Office for Environmental Affairs (EOEA) funds a broad range of capital projects, both large and small. EOEA's most significant function is infrastructure maintenance and improvement. The agency constructs and repairs recreational facilities including state parks, skating rinks, pools

and beaches, and supports infrastructure improvements to roadways, bridges, dams, seawalls, while the Seaport Advisory Council funds harbor revitalization projects.

EOEA also funds natural resource protection projects with a focus on eliminating imminent risks to public health or the state's natural resources. Projects include watershed preservation, erosion prevention, and pollution prevention and remediation, including brownfields restoration and clean air monitoring. EOEA also assists state agencies and local communities plan for sustainable land use by providing technical assistance and information.

Public Safety

(\$ MM)	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$23	\$8	\$37	\$20	\$24	\$24

The Executive Office for Public Safety (EOPS) will devote the majority of its capital spending this year to replacing its aging fleet of state police vehicles. EOPS will purchase 500 new vehicles to replace 20% of its fleet, and 200 of the new cars will be equipped with mobile data terminals that allow troopers in the field to access criminal and driving records while freeing up radio frequencies for more critical calls. Additionally, the capital plan also includes funding to rehabilitate firefighter-training facilities, purchase equipment to upgrade communications equipment to allow interoperable communications for first responders to emergencies, and Municipal Police Station Maintenance Matching Grants to Springfield and Lawrence.

Housing and Community Development

(\$ MM)	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$79	\$106	\$112	\$121	\$123	\$84

- FY06 Commonwealth Capital includes a transfer of \$39M from Housing

The Department of Housing and Community Development (DHCD) coordinates the Commonwealth's housing investments. The agency oversees all state-assisted public and private housing programs for low- and moderate-income families and individuals, including the elderly and others with specialized residential needs, and provides a variety of economic and community development services to local governments.

Oversight responsibilities include the state's 254 local housing authorities and their more than 50,000 public housing units, and private housing programs that provide affordable homeownership and rental opportunities in the private sector. In cooperation with the federal government, other state and local agencies, and private sector entities, DHCD is also responsible for implementing and monitoring the delivery of federal and state anti-poverty services, neighborhood economic development, homelessness prevention, and fuel assistance and weatherization programs across the Commonwealth.

In keeping with the Governor's "Fix-It-First" policy, the investment strategy for housing includes such initiatives as "Redevelop First" and "Communities First" – fostering the rehabilitation and reuse of existing infrastructure and facilities in town centers and neighborhoods near public transportation rather than promoting new construction in undeveloped areas.

Housing programs funded in the current five-year capital investment plan support private-public partnerships to develop affordable housing, including in distressed neighborhoods, and community-based special-needs housing. The investment also funds maintenance and improvements of the state's aging public housing stock as well as economic development grants to attract and leverage private investment that will stimulate economic development in blighted areas.

Information Technology

(\$ MM)	FY01	FY02	FY03	FY04	FY05	FY06E
Total	\$64	\$86	\$76	\$75	\$82	\$90

The Information Technology Division (ITD) capital investment plan funds projects that further the Administration's goal of making government more efficient, convenient, and accessible for the Commonwealth's citizens. ITD major program categories are: Enterprise, E-Government, Health and Human Services, Public Safety, and Education.

Enterprise -- Information technology projects, which facilitate the internal business processes or operational activities of an agency or enterprise level. This program category includes projects that upgrade the Commonwealth's networks, e-mail, and security systems.

- **Major Projects**
 - MassCourts Maximus Project, a new case management system for the courts
 - Network upgrades for Health and Human Services
 - Single Application for Public Housing Intakes and Referral (SAPHIRE), new database that creates a single statewide waiting list for state-aided public housing
 - 19C Investigation Central Case Management System
 - Business Continuity Planning Study
 - Various statewide IT infrastructure upgrades

E-Government – Information technology projects that help extend the external business or information services to the user. This includes portal and web-based applications, which enable citizens, businesses, municipalities and employees to perform electronic transactions.

- **Major Projects**
 - Statewide E-Licensing -- pilot project to determine the best uniform e-licensing system for the Commonwealth
 - Unemployment Insurance Case Management System Study
 - Major IT infrastructure upgrade studies for RMV and DOR
 - New Commonwealth Grants Management System

Health and Human Services – Information technology projects to enable the effective delivery of health and human services that promote health and safety, independence, and quality of life for individuals, families, and communities throughout the Commonwealth.

- **Major Projects**
 - Virtual Gateway for the Executive Office of Health and Human Services, a secretariat-wide portal that will provide an easy-to-access entry point for clients, providers, and staff
 - NewMMIS, new Medicaid case management system

- New Integrated Pharmacy System
- New Massachusetts Immunization Case Management System

Public Safety – Information technology projects that have a direct or indirect impact on the safety of the public, state employees, or property. This includes applications that are related to the operational and informational systems supporting public safety programs and personnel.

- **Major Projects**

- Sheriffs' Information & Reporting System (SIRS), database and case management system for the sheriffs
- 800 MHz Wireless Network, for the design, construction and implementation of the public safety statewide voice radio network
- Integrated Criminal Justice System Study and Project

CENTRAL ARTERY/TUNNEL (CA/T)

The CA/T Project entails replacing Boston's deteriorating six-lane elevated Central Artery (Interstate 93) with an eight-to-ten lane state-of-the-art underground highway, building two new bridges over the Charles River (the Leverett Circle Connector Bridge and the Leonard P. Zakim Bunker Hill Bridge), and constructing a third tunnel (the Ted Williams Tunnel) under Boston harbor that extends Interstate 90 (the Massachusetts Turnpike) to Logan International Airport and Route 1A. The depression of the Central Artery creates more than 260 acres of open land and reconnects downtown Boston to the city's waterfront.

As of December 31, 2004, CA/T Project construction was 95.7% complete, based on the most recent construction budget. The date of substantial completion of the CA/T Project is projected for May 2005 to September 2005.

SCHOOL BUILDING ASSISTANCE

To address substantial need for school building projects across the state, the Commonwealth has created the Massachusetts School Building Authority (MSBA). Prior to establishment of the authority, the Commonwealth reimbursed cities, towns and regional school districts across the state for 50 to 90 percent of the construction and borrowing costs of approved school projects. The authority is now responsible for paying the state's share of costs for the 748 school projects that had been receiving state reimbursement and for an additional 425 projects that the Department of Education had approved for funding, though they had not yet begun to receive any reimbursement from the Commonwealth. The MSBA estimates its share of the costs associated with these 425 school projects to be in excess of \$5.5 billion.

Starting on July 1, 2007, the MSBA will also be permitted to accept new applications for school renovation and construction projects and to fund them. The school building reform legislation also switches borrowing responsibility from local governments to the MSBA for the state's share of future school project costs, authorizes the authority to borrow up to \$10 billion to meet its obligations, and limits the authority's grant making to \$500 million in fiscal 2008 with 4.5% increases in each subsequent fiscal year.

The MSBA will receive funds from the state sales tax to fund its projects and operations. Beginning in FY 2011, the authority will receive one cent of the state sales tax, excluding certain meals and special financing district sales taxes. (This portion of sales tax receipts is referred to as the “dedicated sales tax.”) Until then, state sales tax revenue will be diverted to the authority in the following percentages and amounts: \$395.7 million in fiscal 2005; 70% of the Dedicated Sales Tax, with a minimum of \$488.7 million, in fiscal 2006; 78% of the Dedicated Sales Tax, with a minimum of \$557.4 million, in fiscal 2007; 85% of the Dedicated Sales Tax, with a minimum of \$634.7 million, in fiscal 2008; 90% of the Dedicated Sales Tax, with a minimum of \$702.3 million, in fiscal 2009; and 95% of the Dedicated Sales Tax in fiscal 2010.

In addition, the Commonwealth provided start-up funding from the authority through a \$150 million appropriation from the FY 2004 state surplus and a \$1 billion state general obligation bond authorization. The governor has agreed to provide the full \$1 billion of authorized state capital funds, which the Commonwealth plans to provide to the authority by the end of the first quarter of fiscal year 2006.

REAUTHORIZATION AND DEAUTHORIZATION

For the past several years, the Commonwealth has maintained a substantial level of authorized but unissued debt. The Administration’s capital management policies include the careful scrutiny of authorized debt and the deauthorization of unnecessary commitments wherever possible. Authorized but unissued debt is estimated to be \$8.8 billion on June 30, 2005.

(\$ millions)

	July 1, Authorized and FY Unissued	New Autho- rizations	Deautho- rizations	Debt Issued*	Lapsed Autho- rizations	Contri- butions in lieu of Bonds	June 30, Authorized and Unissued	Net Change
2005	\$ 6,828	\$ 4,031	\$ -	\$ (2,087)	\$ -	\$ -	\$ 8,772	1,944
2004	8,722	310	-	(1,993)	(211)	-	6,828	(1,894)
2003	8,484	2149	-	(1,911)	-	-	8,722	238
2002	9,290	680	-	(1,486)	-	-	8,484	(806)
2001	11,586	282	(137)	(2,369)	(72)	-	9,290	(2,296)
2000	12,004	4,117	(2,562)	(1,762)	(206)	(5)	11,586	(418)
1999	12,317	1,514	-	(1,334)	-	(492)	12,004	(313)
1998	11,954	2,268	-	(1,448)	(235)	(223)	12,317	363
1997	8,183	4,707	-	(899)	(36)	-	11,954	3,771
1996	5,943	3,594	-	(1,087)	(267)	-	8,183	2,240

* Excluding refunding